

**POCAHONTAS AREA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2009 Election)		
Raymond Seehusen	President	2009
Jeff Kerns	Vice President	2009
Greg Fritz		2011
Dan Duitscher		2011
Richard Garner		2009
Darwin Eaton		2011
John Behrendsen		2011

(After September 2009 Election)		
Raymond Seehusen	President	2013
Jeff Kerns	Vice President	2013
Greg Fritz		2011
Dan Duitscher		2011
Richard Garner		2013
Darwin Eaton		2011
John Behrendsen		2011

School Officials

Joseph Kramer	Superintendent
Diane Pattee	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Pocahontas Area Community School District, Pocahontas, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Pocahontas Area Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated March 3, 2011 on our consideration of Pocahontas Area Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocahontas Area Community School District's basic financial statements. We previously audited the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 and 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce D. Frink

BRUCE D. FRINK
Certified Public Accountant

March 3, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Pocahontas Area Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,708,119 in fiscal year 2009 to \$5,945,924 in fiscal year 2010 (a 4% increase), while General Fund expenditures decreased from \$6,042,938 in fiscal year 2009 to \$6,013,976 in fiscal year 2010 (a 1% decrease).
- General Fund revenues increased due to additional sharing with Pomeroy, Palmer and property tax increases. The General Fund balance decreased over \$68,000 in the prior fiscal year.
- Statewide sales, services and use tax revenues are being used for new building construction and property tax relief to service the debt incurred for this project.
- In 2009, the voters approved a \$10,890,000 bond issue for the construction of a new junior-senior high building and improvements to the existing facility. Construction on the facility will continue into 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Pocahontas Area Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Pocahontas Area Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Pocahontas Area Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the Student Activity Fund as well as a multiyear comparison of revenues and expenses. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Pocahontas Area Community School District Annual Financial Report

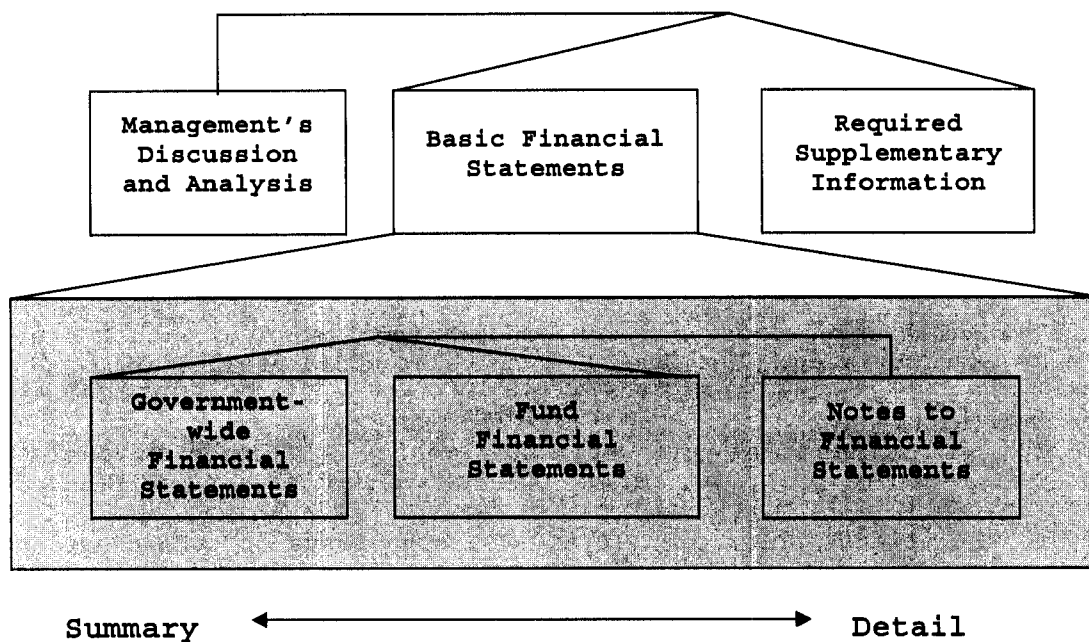


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and day care	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and day care programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" funds for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Discovery Daycare.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 compared to June 30, 2009.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	2009-2010
Current assets	\$ 14,932	17,301	110	64	15,042	17,365	-13.38%
Capital assets	5,661	2,217	1	3	5,662	2,220	155.05%
Total assets	20,593	19,518	111	67	20,704	19,585	5.71%
Current liabilities	3,917	3,478	17	-	3,934	3,478	13.11%
Non-current liabilities	10,937	11,042	-	-	10,937	11,042	100.00%
Total liabilities	14,854	14,520	17	-	14,871	14,520	2.42%
Net Assets							
Invested in capital assets, net of related debt	1,661	2,217	3	3	1,664	2,220	-25.05%
Restricted	3,118	1,941	-	-	3,118	1,941	60.64%
Unrestricted	960	840	91	64	1,051	904	16.26%
Total net assets	\$ 5,739	4,998	94	67	5,833	5,065	15.16%

Total assets grew over 15%. Capital assets will grow and restricted assets will decrease as payments are made on the new high school/middle school building.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total School District		Total Change	
2010	2009	2010	2009	2010	2009	2009-2010	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 788	356	287	224	1,075	580	85.34%
Operating grants, contributions and restricted interest	1,915	1,423	185	267	2,100	1,690	24.26%
General revenues:							
Property tax	3,174	2,437	-	-	3,174	2,437	30.24%
Income surtax	224	-	-	-	224	-	100.00%
Statewide sales, services and use tax	273	338	-	-	273	338	-19.23%
Unrestricted state grants	1,494	2,107	-	-	1,494	2,107	-29.09%
Unrestricted investment earnings	26	43	-	-	26	43	-39.53%
Other	68	65	-	-	68	65	4.62%
Total revenues	7,962	6,769	472	491	8,434	7,260	16.17%
Program expenses:							
Governmental activities:							
Instruction	4,255	4,563	-	-	4,255	4,563	-6.75%
Support Services	1,822	1,719	-	-	1,822	1,719	5.99%
Non-instructional programs	2	2	436	495	438	497	-11.87%
Other expenses	1,142	609	-	-	1,142	609	87.52%
Total expenses	7,221	6,893	436	495	7,657	7,388	3.64%
Change in net assets	\$ 741	(124)	36	(4)	777	(128)	707.03%

Property tax and unrestricted state grants account for 55% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 79% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,962,520 and expenses were \$7,221,610 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 4,255	4,563	-6.75%	2,116	3,076	-31.21%
Support services	1,822	1,719	5.99%	1,652	1,699	-2.77%
Non-instructional programs	2	2	0.00%	2	2	0.00%
Other expenses	1,142	609	87.52%	748	336	122.62%
Totals	<u>\$ 7,221</u>	<u>6,893</u>	<u>4.76%</u>	<u>4,518</u>	<u>5,113</u>	<u>-11.64%</u>

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$788,471.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,126,605.
- The net cost of governmental activities was financed with \$3,174,308 in property tax and \$1,494,408 in state foundation aid.

Business-Type Activities

Revenues for business type activities for the year ended June 30, 2010 were \$467,951 and expenses totaled \$435,666. The District's business type activities include the School Nutrition Fund and Discovery Daycare. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The Discovery Daycare Center was established in 2008 as part of a 28E agreement with the city of Pocahontas and the Pocahontas Community Hospital. There is no financial responsibility on the part of the school.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Pocahontas Area Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$10,712,592; a large decrease from last year's ending fund balances of \$13,801,457.

This is a result of the beginning of an \$11 million construction project which will be completed over the next two years.

Governmental Fund Highlights

- The District's General Fund balance decreased due to revenues not being able to keep pace with expenses. A state aid cut of historic size kept revenues less than anticipated.
- The District's Capital Projects Fund decreased as a result of the District beginning work on the new building project.

Proprietary Fund Highlights

The District's Nutrition Fund decreased primarily as a result of reduced participation.

The Discovery Day Care Center was formed in 2008 as part of a community venture. It enjoyed a profitable first full year of operation.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and other major funds are not presented in the budgetary comparison on pages 34 and 35.

Legal Budgetary Highlights

The District's receipts were \$829,476 less than budgeted receipts, a variance of 9%. The most significant variance resulted from the District receiving less in state source revenue than originally anticipated.

Total expenditures were less than budgeted in total, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The published budget was not exceeded in any of the four functions. The District did not exceed its unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$5.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a large increase from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$246,416.

The original cost of the District's capital assets was \$10,878,798. Governmental funds account for \$10,841,706, with the remainder of \$37,092 accounted for in the Proprietary School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 144	144	-	-	144	144	0.00%
Construction in progress	3,562	466	-	-	3,562	466	100.00%
Site improvements	46	46	-	-	46	46	0.00%
Buildings	1,278	1,278	-	-	1,278	1,278	0.00%
Furniture and equipment	283	283	5	5	288	288	0.00%
Totals	\$ 5,313	2,217	5	5	5,318	2,222	139.33%

Long-Term Debt

The voters of the District approved a \$10.89 million bond issue in December, 2008 for the construction of a major addition to the existing middle school/high school. This will be paid off over the next twenty years beginning in June 2010. The balance at June 30, 2010 was \$10,550,000. The District received a \$360,000 loan from the U.S. Department of Agriculture Rural Development program for costs incurred with the Discovery Day Care Program.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment the past several years.
- The allowable growth rate of 4% or less provided by the Legislature is inadequate to meet expected cost increases.
- Mid-year state aid cuts prevent proper planning.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Pattee, District Secretary, Pocahontas Area Community School District, 202 1st Ave SW, Pocahontas, IA 50574-1910.

Basic Financial Statements

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 10,872,757	97,239	10,969,996
Receivables:			
Property tax:			
Current year	30,920	-	30,920
Succeeding year	3,456,854	-	3,456,854
Income surtax - succeeding year	224,302	-	224,302
Due from other governments	100,117	-	100,117
Other receivables	247,027	3,624	250,651
Inventory	-	9,597	9,597
Capital assets, net of accumulated depreciation	5,660,914	875	5,661,789
Total assets	<u>20,592,891</u>	<u>111,335</u>	<u>20,704,226</u>
Liabilities			
Accounts payable	242,389	17,400	259,789
Accrued payroll and benefits	23,366	-	23,366
Accrued interest payable	73,007	-	73,007
Deferred revenue:			
Succeeding year property tax	3,456,854	-	3,456,854
Federal programs	121,589	-	121,589
Long term liabilities:			
Portion due within one year:			
USDA Rural Development Loans	26,667	-	26,667
General obligation bonds payable	355,000	-	355,000
Portion due after one year:			
Net OPEB liability	26,774	-	26,774
USDA Rural Development Loans	333,333	-	333,333
General obligation bonds payable	10,195,000	-	10,195,000
Total liabilities	<u>14,853,979</u>	<u>17,400</u>	<u>14,871,379</u>
Net assets			
Invested in capital assets, net of related debt	1,660,914	875	1,661,789
Restricted for:			
Employee benefits	150,885	-	150,885
Management levy	311,311	-	311,311
Physical plant and equipment levy	499,524	-	499,524
Capital projects	2,074,361	-	2,074,361
Debt service	36,722	-	36,722
Categorical funding	45,387	-	45,387
Unrestricted	959,808	93,060	1,052,868
Total net assets	<u>\$ 5,738,912</u>	<u>93,935</u>	<u>5,832,847</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction	\$ 4,255,445	788,471	1,351,016	(2,115,958)	-	(2,115,958)
Support services:						
Student services	187,015	-	-	(187,015)	-	(187,015)
Instructional staff services	157,527	-	-	(157,527)	-	(157,527)
Administration services	627,934	-	-	(627,934)	-	(627,934)
Operation and maintenance of plant services	563,871	-	170,226	(393,645)	-	(393,645)
Transportation services	285,690	-	-	(285,690)	-	(285,690)
	1,822,037	-	170,226	(1,651,811)	-	(1,651,811)
Non-instructional programs:						
Community service operations	2,475	-	-	(2,475)	-	(2,475)
Other expenditures:						
AEA flowthrough	249,853	-	249,853	-	-	-
Interest on debt service	449,373	-	87,189	(362,184)	-	(362,184)
Facilities acquisition and construction	197,821	-	56,256	(141,565)	-	(141,565)
Depreciation (unallocated) *	244,606	-	-	(244,606)	-	(244,606)
	1,141,653	-	393,298	(748,355)	-	(748,355)
Total governmental activities	7,221,610	788,471	1,914,540	(4,518,599)	-	(4,518,599)

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
	Operating Grants, Contributions				
	Charges for Service	and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses					
	435,666	286,825	185,126	-	36,285
					36,285
Total	\$ 7,657,276	1,075,296	2,099,666	(4,518,599)	(4,482,314)
General Revenues:					
Property tax levied for:					
General purposes			\$ 2,188,296	-	2,188,296
Management			179,696	-	179,696
Capital outlay			215,144	-	215,144
Debt service			591,172	-	591,172
Income surtax			224,302	-	224,302
Statewide sales, services and use tax			273,426	-	273,426
Unrestricted state grants			1,494,408	-	1,494,408
Unrestricted investment earnings			25,569	-	25,569
Other			67,496	-	67,496
Total general revenues			5,259,509	-	5,259,509
Change in net assets			740,910	36,285	777,195
Net assets beginning of year			4,998,002	57,650	5,055,652
Net assets end of year			\$ 5,738,912	93,935	5,832,847

* This amount excludes the depreciation that is included in the direct expenses of the various programs.
See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

	Assets					
	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service
Cash and pooled investments	\$ 696,113	106,866	309,031	462,429	9,116,466	30,967
Receivables:						
Property tax:						
Current year	21,319	-	1,751	2,095	-	5,755
Succeeding year	2,554,032	-	180,000	229,282	-	493,540
Income surtax - succeeding year	224,302	-	-	-	-	-
Due from other governments	56,997	-	-	25,000	18,120	-
Other receivables	224,755	11,743	529	10,000	-	-
Total assets	3,777,518	118,609	491,311	728,806	9,134,586	530,262
						14,781,092
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	92,164	-	-	-	150,225	-
Accrued payroll and benefits	23,366	-	-	-	-	-
Deferred revenue:						
Succeeding year property tax	2,554,032	-	180,000	229,282	-	493,540
Succeeding year income surtax	224,302	-	-	-	-	-
Federal programs	121,589	-	-	-	-	-
Total liabilities	3,015,453	-	180,000	229,282	150,225	493,540
						4,068,500
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	-	36,722
Categorical funding	45,387	-	-	-	-	-
Unreserved, reported in:						
Capital projects	-	-	-	-	8,984,361	-
Special revenue funds	-	118,609	311,311	499,524	-	-
General fund	716,678	-	-	-	-	-
Total fund balances	762,065	118,609	311,311	499,524	8,984,361	36,722
						10,712,592
Total liabilities and fund balances	\$ 3,777,518	118,609	491,311	728,806	9,134,586	530,262
						14,781,092

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2010

Total fund balances of governmental funds (Exhibit C)		\$ 10,712,592
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
expenditures of the current fiscal period.		224,302
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		5,660,914
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(73,007)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
General obligation bonds	\$ (10,550,000)	
USDA Rural Development Loan	(360,000)	
Net OPEB liability	<u>(26,774)</u>	(10,936,774)
Internal Service fund assets that are to be included with governmental funds.		<u>150,885</u>
Net assets of governmental activities (Exhibit A)		<u>\$ 5,738,912</u>

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Revenues:							
Local sources:							
Local tax	\$ 2,188,296	-	179,696	215,144	273,426	591,172	3,447,734
Tuition	788,471	-	-	-	-	-	788,471
Other	123,912	219,185	19,319	125,657	56,256	86,818	631,147
State sources	2,398,487	-	115	135	-	371	2,399,108
Federal sources	446,758	-	-	25,000	-	-	471,758
Total revenues	5,945,924	219,185	199,130	365,936	329,682	678,361	7,738,218
Expenditures:							
Current:							
Instruction	4,064,089	211,191	159,122	-	-	-	4,434,402
Support services:							
Student services	187,015	-	-	-	-	-	187,015
Instructional staff services	157,527	-	-	-	-	-	157,527
Administration services	620,282	-	-	7,500	152	-	627,934
Operation and maintenance of plant services	447,045	-	116,826	-	-	-	563,871
Transportation services	285,690	-	-	-	-	-	285,690
	1,697,559	-	116,826	7,500	152	-	1,822,037
Non-instructional programs:							
Community service operations	2,475	-	-	-	-	-	2,475

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Other expenditures:							
AEA flowthrough	249,853	-	-	-	-	-	249,853
Debt service:							
Principal	-	-	-	-	-	340,000	340,000
Interest	-	-	-	-	-	451,639	451,639
Facilities acquisition and construction	-	-	-	487,774	3,398,903	-	3,886,677
	<u>249,853</u>	<u>-</u>	<u>-</u>	<u>487,774</u>	<u>3,398,903</u>	<u>791,639</u>	<u>4,928,169</u>
Total expenditures	<u>6,013,976</u>	<u>211,191</u>	<u>275,948</u>	<u>495,274</u>	<u>3,399,055</u>	<u>791,639</u>	<u>11,187,083</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(68,052)</u>	<u>7,994</u>	<u>(76,818)</u>	<u>(129,338)</u>	<u>(3,069,373)</u>	<u>(113,278)</u>	<u>(3,448,865)</u>
Other financing sources:							
Proceeds from proceeds of USDA Rural Development Loan	-	-	-	360,000	-	-	360,000
Operating transfers in	-	-	-	-	-	150,000	150,000
Operating transfers (out)	-	-	-	-	(150,000)	-	(150,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>360,000</u>	<u>(150,000)</u>	<u>150,000</u>	<u>360,000</u>
Net change in fund balance	<u>(68,052)</u>	<u>7,994</u>	<u>(76,818)</u>	<u>230,662</u>	<u>(3,219,373)</u>	<u>36,722</u>	<u>(3,088,865)</u>
Fund balances beginning of year	<u>830,117</u>	<u>110,615</u>	<u>388,129</u>	<u>268,862</u>	<u>12,203,734</u>	<u>-</u>	<u>13,801,457</u>
Fund balances end of year	<u>\$ 762,065</u>	<u>118,609</u>	<u>311,311</u>	<u>499,524</u>	<u>8,984,361</u>	<u>36,722</u>	<u>10,712,592</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2010

Net change in fund balances - total governmental funds (Exhibit E) \$ (3,088,865)

**Amounts reported for governmental activities in the State of
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities. This figure represents the change from the prior fiscal year.

224,302

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 3,688,856	
Depreciation expense	<u>(244,606)</u>	3,444,250

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when due. In the Statement of Activities, interest expense is recorded as the interest accrues, regardless of when it is due.

2,266

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Issued	(360,000)	
Repaid	<u>340,000</u>	(20,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Other postemployment benefits	(26,774)
Early retirement benefits	152,127

Internal Service Fund transactions are not reported in the General Fund as revenues and expenditures, however the General Fund is the source of these revenues and use of the expenditures.

53,604

Change in net assets of governmental activities (Exhibit B) \$ 740,910

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2010

	Enterprise Funds			Governmental
	School Nutrition	Discovery Day Care	Total	Activities Internal Service
Assets				
Cash and pooled investments	\$ 37,481	59,758	97,239	150,885
Other receivables	3,624	-	3,624	-
Inventories	9,597	-	9,597	-
Capital assets, net of accumulated depreciation	875	-	875	-
Total assets	<u>51,577</u>	<u>59,758</u>	<u>111,335</u>	<u>150,885</u>
Liabilities:				
Accounts payable	<u>5,856</u>	<u>11,544</u>	<u>17,400</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	875	-	875	-
Reserved for employee benefits	-	-	-	150,885
Unrestricted	<u>44,846</u>	<u>48,214</u>	<u>93,060</u>	<u>-</u>
Total net assets	<u>\$ 45,721</u>	<u>48,214</u>	<u>93,935</u>	<u>150,885</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2010

	Enterprise Funds			Governmental Activities
	School Nutrition	Discovery Day Care	Total	Internal Service
Operating revenue:				
Local sources:				
Charges for services	\$ 145,031	141,794	286,825	662,609
Operating expenses:				
Non-instructional programs:				
Food service operations:				
Salaries	86,645	-	86,645	-
Benefits	41,738	-	41,738	-
Supplies	170,246	-	170,246	-
Depreciation	1,810	-	1,810	-
Total operating expenses	300,439	-	300,439	-
Community service programs:				
Salaries	-	90,299	90,299	-
Benefits	-	12,402	12,402	-
Services	-	11,466	11,466	-
Supplies	-	21,060	21,060	-
	-	135,227	135,227	-
Internal service programs:				
Benefits	-	-	-	609,005
Total operating expenses	300,439	135,227	435,666	609,005
Operating income (loss)	(155,408)	6,567	(148,841)	53,604
Non-operating revenues:				
Interest income	79	52	131	-
Contributions	-	38,982	38,982	-
State sources	4,080	-	4,080	-
Federal sources	141,933	-	141,933	-
	146,092	39,034	185,126	-
Change in fund net assets	(9,316)	45,601	36,285	53,604
Net assets beginning of year	55,037	2,613	57,650	97,281
Net assets end of year	\$ 45,721	48,214	93,935	150,885

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2010

	School Nutrition	Discovery Day Care	Total	Governmental Activities Internal Service
Cash flows from operating activities:				
Cash received from sale of services	\$ 147,443	141,794	289,237	662,609
Cash payments to employees for services	(128,383)	(91,157)	(219,540)	(609,005)
Cash payments to suppliers for goods or services	(157,726)	(32,526)	(190,252)	-
Net cash provided by (used by) operating activities	(138,666)	18,111	(120,555)	53,604
Cash flows from non-capital financing activities:				
State grants received	4,080	-	4,080	-
Federal grants received	130,815	-	130,815	-
Net cash provided by non-capital financing activities	134,895	-	134,895	-
Cash flows from capital financing activities:				
Capital contributions	-	38,982	38,982	-
Cash flows from investing activities:				
Interest on investments	79	52	131	-
Net (decrease) in cash and cash equivalents	(3,692)	57,145	53,453	53,604
Cash and cash equivalents beginning of year	41,173	2,613	43,786	97,281
Cash and cash equivalents end of year	\$ 37,481	59,758	97,239	150,885
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ (155,408)	6,567	(148,841)	53,604
Adjustments to reconcile operating income (loss) to cash provided by (used by) operating activities:				
Depreciation expense	1,810	-	1,810	-
Commodities used	11,118	-	11,118	-
Decrease in other receivables	2,412	-	2,412	-
Decrease in inventory	5,190	-	5,190	-
(Decrease) in accounts payable	(3,788)	-	(3,788)	-
Increase in accrued payroll and benefits	-	11,544	11,544	-
	\$ (138,666)	18,111	(120,555)	53,604

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received federal commodities valued at \$11,118. See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

	Private Purpose Trusts	Agency Funds Sports Boosters
Assets		
Cash and pooled investments	\$ 9,434	23,283
Liabilities		
Other payables	-	23,283
Net Assets		
Reserved for special purposes	\$ 9,434	-

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2010

	Private Purpose <u>Trust Fund</u>
Additions:	
Local sources:	
Miscellaneous	\$ 2,162
Total additions	<u>2,162</u>
Deductions:	
Support services:	
Scholarships	<u>2,500</u>
Change in net assets	(338)
Net assets beginning of year	<u>9,772</u>
Net assets end of year	<u><u>\$ 9,434</u></u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

Pocahontas Area Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Pocahontas, Rolfe, Havelock & Plover, Iowa, and agricultural territory in Pocahontas and Palo Alto Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pocahontas Area Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pocahontas Area Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor's Conference Board.

The Discovery Day Care Fund is a day care facility run by the District as part of a 28E agreement with the Pocahontas Community Hospital and the City of Pocahontas. As part of the agreement, the Hospital and City agree to cover all operating losses.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's major proprietary funds are the Enterprise, School Nutrition Fund, Discovery Day Care and Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's medical insurance plan.

Discovery Day Care accounts for the operation of a day care center.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The District had no intangible assets meeting the threshold limit of \$50,000 approved by the Board of Education. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000
Intangible assets	50,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent grant proceeds.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2010.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010 expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

2) Cash and Pooled Investments

The District's deposits at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$8,632,795 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa School Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Beginning of Year	Increases	Decreases	End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 143,945	-	-	143,945
Construction in progress	466,177	3,095,447	-	3,561,624
Land	610,122	3,095,447	-	3,705,569
Capital assets being depreciated:				
Site Improvements	337,881	137,906	-	475,787
Buildings	3,445,085	-	-	3,445,085
Furniture and Equipment	2,759,762	455,503	-	3,215,265
Total capital assets being depreciated	6,542,728	593,409	-	7,136,137
Less accumulated depreciation for:				
Site Improvements	291,945	23,789	-	315,734
Buildings	2,166,868	68,901	-	2,235,769
Furniture and Equipment	2,477,373	151,916	-	2,629,289
Total accumulated depreciation	4,936,186	244,606	-	5,180,792
Total capital assets being depreciated, net	1,606,542	348,803	-	1,955,345
Governmental activities, capital assets, net	<u>\$ 2,216,664</u>	<u>3,444,250</u>	<u>-</u>	<u>5,660,914</u>
Business type activities:				
Furniture and equipment	\$ 37,092	-	-	37,092
Less accumulated depreciation	34,407	1,810	-	36,217
Business type activities capital assets, net	<u>\$ 2,685</u>	<u>(1,810)</u>	<u>-</u>	<u>875</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>\$ 244,606</u>
Business Type activities:				
Food service operations				<u>\$ 1,810</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$247,598, \$249,848, and \$224,788 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$249,853 for year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Commitments

In December, 2008, the voters of the District approved a \$10,890,000 bond issue for constructing a major addition to the existing middle school/high school. As of June 30, 2010, contracts totaling \$8,821,869 had been signed. \$3,004,508 of costs had been incurred and are included in construction in progress in Note 3. The balance of \$5,817,361 will be paid as work on the project progresses.

(7) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Balance Beginning Year	Additions	Reductions	Balance End of Year
Net OPEB Liability	\$ -	26,774	-	26,774
General Obligation Bonds	10,890,000	-	340,000	10,550,000
Early Retirement Payable	152,127	-	152,127	-
USDA Rural Development Loan	-	360,000	-	360,000
Total	<u>\$11,042,127</u>	<u>386,774</u>	<u>492,127</u>	<u>10,936,774</u>

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2009			
	Rates	Interest	Principal	Total
2011	4.00%	\$ 438,039	355,000	793,039
2012	4.00	423,839	370,000	793,839
2013	4.00	409,039	390,000	799,039
2014	4.00	393,439	405,000	798,439
2015	4.00	377,239	425,000	802,239
2016-2020	4.00	1,613,794	2,455,000	4,068,794
2021-2025	4.00-4.20	1,070,443	3,100,000	4,170,443
2026-2029	4.25-4.50	345,077	3,050,000	3,395,077
Total		<u>\$5,070,909</u>	<u>10,550,000</u>	<u>15,620,909</u>

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 70 active and 11 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 42,756
Interest on net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	42,756
Contributions made	(15,982)
Increase in net OPEB obligation	26,774
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	\$ 26,774

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$15,982 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$42,756	37.4%	\$26,774

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$433,200, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$433,200. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,980,000 and the ratio of the UAAL to covered payroll was 10.9%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

Projected claim costs of the medical plan are \$553 per month for retirees less than age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Required Supplementary Information

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund

Year ended June 30, 2010

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$433	\$433	0.0%	\$3,980	10.9%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Computer Supplies	393	-	393	-
Graduated Classes	6,253	-	(2,174)	8,427
Class of 2008	1,577	-	1,577	-
Class of 2009	934	-	934	-
Class of 2010	2,332	2,313	1,783	2,862
Class of 2011	111	12,872	10,319	2,664
Class of 2012	141	513	39	615
Class of 2013	-	245	39	206
Locker Rent	1,909	150	437	1,622
Board of Education	107	1,419	1,221	305
Mock Trial	832	658	428	1,062
Pop/Juice - Vending	1,901	5,591	4,540	2,952
Vocal Music	583	2,271	1,933	921
Instrumental Music	5,626	4,340	3,520	6,446
Band Uniforms	370	550	10	910
Band Insurance	686	-	-	686
Drill Team	3,766	9,685	9,790	3,661
Football	1,042	14,570	15,612	-
Cheerleaders	1,211	2,978	3,088	1,101
Weight Training	437	-	-	437
Golf	-	1,454	1,454	-
Basketball	4,624	9,615	7,907	6,332
Boys Basketball Camp	802	2,454	2,228	1,028
Volleyball	1,080	3,833	3,816	1,097
Softball/Baseball	-	11,477	11,477	-
Softball Trips	653	1,102	1,716	39
Track	2,572	4,807	7,379	-
Track Trip - Boys	246	1,265	1,231	280
Track Trip - Girls	2,227	800	301	2,726
Cross Country	-	782	782	-
Wrestling	-	8,150	8,150	-
Activity Tickets	2,433	14,699	12,268	4,864
Activity Tickets/Senior Citizens	1,172	220	-	1,392
Wrestling Mothers	7,668	15,762	14,597	8,833
Football Camp	1,168	3,323	2,206	2,285
Athletic Resale	615	520	25	1,110
Volleyball Camp	682	1,492	1,505	669
District Football	-	218	218	-
Girls Basketball Camp	2,192	4,338	3,628	2,902
Marketing Class	28	-	28	-
Cross Country Special Fund	61	335	347	49
Trading Post Store	1,077	13,590	13,195	1,472
Science Club	47	-	47	-
Art Club	236	-	70	166
Mystery Photo Contest	50	-	-	50
Student Council	164	-	-	164

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Character Education	91	1,175	780	486
FFA	5,961	13,624	11,648	7,937
Home Ec Club	14	-	-	14
Home Ec Resale	53	-	-	53
Spanish Club	192	-	-	192
Annual	1,022	16,333	10,653	6,702
Softball/Baseball Combined Concessions	-	5,727	1,701	4,026
Softball Concessions	8,934	1,868	9,203	1,599
Baseball Concessions	4,863	5,855	7,875	2,843
Wellness	-	624	221	403
Newspaper	7	-	7	-
Dramatics	-	1,164	1,164	-
National Honor Society	56	801	208	649
Jr High Math	93	-	93	-
Softball Parents	3,777	-	1,058	2,719
Elementary Sunshine Fund	228	694	342	580
Energy and Power Class	300	185	485	-
Swing Choir	450	-	-	450
Mentoring Program	45	-	-	45
Task Force Fund	156	134	134	156
MS Concessions	785	-	-	785
Jump Rope for Heart	3,559	1,271	1,674	3,156
HS Take Charge for Education	1,684	337	444	1,577
Schwig Marketing	2,713	1,025	2,955	783
MS Take Charge for Education	134	38	-	172
Carnival	4,627	1,558	4,836	1,349
After Prom Party	1,850	7,336	6,291	2,895
Interest	9,013	1,045	1,355	8,703
Total	110,615	219,185	211,191	118,609

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Seven Years

	Modified Accrual Basis					
	2010	2009	2008	2007	2006	2005
Revenues:						
Local sources:						
Local tax	\$ 3,447,734	\$ 2,775,254	2,698,079	2,741,371	2,860,784	2,427,585
Tuition	788,471	322,126	256,959	306,267	299,640	272,844
Other	631,147	387,949	438,379	452,789	474,365	647,988
State sources	2,399,108	3,057,598	3,131,561	2,892,756	2,977,811	3,044,235
Federal sources	471,758	211,396	156,493	195,572	194,882	246,869
Total	<u>\$ 7,738,218</u>	<u>\$ 6,754,323</u>	<u>6,681,471</u>	<u>6,588,755</u>	<u>6,807,482</u>	<u>6,639,521</u>
						<u>2,517,174</u>
						<u>372,820</u>
						<u>469,473</u>
						<u>2,770,916</u>
						<u>208,871</u>
						<u>6,339,254</u>
Expenditures:						
Instruction	\$ 4,434,402	\$ 4,359,888	4,241,245	3,924,140	4,082,812	4,178,727
Support services:						
Student	187,015	200,865	195,476	185,746	210,223	216,071
Instructional staff	157,527	158,918	182,084	177,872	171,911	263,801
Administration	627,934	664,608	616,079	702,218	660,310	587,190
Operation and maintenance of plant	563,871	545,936	557,945	529,866	572,294	917,113
Transportation	285,690	265,195	285,589	320,268	280,330	252,082
Non-instructional programs	2,475	1,607	6,037	2,824	4,037	2,790
Other expenditures:						
Debt Service:						
Principal	-	-	-	-	-	24,457
Interest	-	-	-	-	-	612
Facilities acquisition	3,886,677	592,724	154,854	112,518	359,164	-
AEA flowthrough	249,853	234,021	230,198	225,342	219,447	222,156
Total	<u>\$ 10,395,444</u>	<u>\$ 7,023,762</u>	<u>6,469,507</u>	<u>6,180,794</u>	<u>6,560,528</u>	<u>6,664,999</u>
						<u>54,459</u>
						<u>3,274</u>
						<u>182,124</u>
						<u>226,294</u>
						<u>6,626,449</u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	13,694
Food Distribution (non-cash)	10.555	FY10	11,118
Fresh Fruit and Vegetable Program	10.582	FY10	1,500
Child and Adult Care Food Program	10.558	FY10	8,246
Summer Food Service Program for Children	10.559	FY10	10,623
National School Lunch Program	10.555	FY10	96,752
			<u>141,933</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY10	85,329
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	24,068
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	238,611
Improving Teacher Quality - States Grants	84.367	FY10	32,515
Grants for Assessments and Related Activities	84.369	FY10	3,549
Rural Education Achievement Program	84.358	FY10	21,912
Vocational Education - Basic Grants to States	84.048	FY10	9,047
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY10	2,475
Iowa Demonstration Construction Grants	84.215	FY10	25,000
Prairie Land AEA 8			
Special Education - Grants to States (IDEA Part B)	84.027	FY10	<u>29,251</u>
Total			<u>\$ 613,690</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Pocahontas Area Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of the
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 3, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pocahontas Area Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pocahontas Area Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-10 to be significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pocahontas Area Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pocahontas Area Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pocahontas Area Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pocahontas Area Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 3, 2011

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Pocahontas Area Community School District:

Compliance

We have audited the compliance of Pocahontas Area Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Pocahontas Area Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Pocahontas Area Community School District's management. Our responsibility is to express an opinion on Pocahontas Area Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pocahontas Area Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pocahontas Area Community School District's compliance with those requirements.

In our opinion Pocahontas Area Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of Pocahontas Area Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pocahontas Area Community School District's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Pocahontas Area Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pocahontas Area Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Bruce D. Frink

BRUCE D. FRINK
Certified Public Accountant

March 3, 2011

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 - ARRA State Fiscal Stabilization Fund Education (SFSF) - State Grants, Recovery Act
 - Clustered programs:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 - ARRA Title I Grants to Local Educational Agencies, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pocahontas Area Community School District did not qualify as a low-risk auditee.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

II-B-09 Auditor Drafting of the Financial Statements and Related Footnote Disclosures

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:
(continued)

II-C-10 Financial Reporting

Comment - During the audit, we identified material amounts of payables in the Capital Projects Fund which were not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation - The District should implement procedures to ensure all payables are identified and included in the District's financial statements.

Response - We will double check these in the future to avoid missing any payables.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.010 - Title I Grants to Local Educational Agencies
CFDA Number 84.389 - ARRA Title I Grants to Local Educational Agencies, Recovery Act
Federal Award Year: 2010
US Department of Education
Passed through Iowa Department of Education

CFDA Number 84.394 - ARRA State Fiscal Stabilization Fund Education (SFSF) - State Grants, Recovery Act
Federal Award Year: 2010
US Department of Education
Passed through Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010, did not exceed the certified budget amounts in any of the four functions. The District did not exceed its unspent authorized budget for the year ending June 30, 2010.
- IV-B-10 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-10 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-10 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- IV-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-10 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-K-10 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- IV-L-10 Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance	\$	-
Statewide sales, services and use tax revenue		273,426
Expenditures/transfers out:		
School infrastructure:		
Building	\$123,426	
Debt service for school infrastructure:		
General obligation debt	150,000	273,426
Ending balance	\$	-

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:
(continued)

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	<u>Per \$1,000 Of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt service levy	\$.65	\$150,000
Physical plant and equipment levy	.54	123,426